Hard Cash

Banks are still cautious, but financing is picking up.

By Dale K. DuPont, Correspondent

Banks are becoming more interested in putting capital into green projects.

Red and White Fleet

Being the first of its kind, **Red and White Fleet**'s *Enhydra* — the largest hybrid powered passenger vessel built in the U.S. under Subchapter K rules — has attracted considerable attention.

"We do get a lot of inbound interest. *Enhydra* has been a great billboard," Tyler Foster, chief financial officer of the San Francisco tour boat company, said of the aluminum-hulled lithium-ion battery 128'×30', 600-passenger sightseeing vessel launched last year. Red and White is committed to zero-emission fleet renewal. Interest is coming from other operators and lenders.

"Big banks are more focused than ever on deploying capital into green," he said. "Certainly, there's appetite."

And there's appetite, too, for Jones Act vessels, LNG and anything with an iron-clad contract. But it's selective. While money is available, both sides are wary of overbuilding. Lenders are drilling deep into balance sheets, high interest loans are being refinanced, inland capacity is about at equilibrium, and offshore is showing faint signs of life.

"There is much more emphasis on credit quality, along with cash flow, leverage, collateral and trade type. Overall newbuild and delivery activity has declined due to overcapacity in the fleet," said Charlie Lee, senior vice president of **Wells Fargo Equipment Finance**, marine specialty unit. "Most lenders have seen underwriting standards tighten over the past few years with a focus on operating leverage and liquidity."

"Banks are still very, very cautious," said Ronnie Evans, director of marine finance at **KeyBank's Key Equipment Finance**. "Credit is key."

And people are building because of Subchapter M.

Day rates seem to be picking up. For barge operators, they have "slowly crept back into the $5,500-$6,000 per day range, increasing as much as 25% depending on the type of products that are being moved," Evans noted recently.

INTEREST, REFINANCING

Interest rates haven't moved much the last two years. Fixed rate deals are in the 5%-6% range for larger, more established companies and 7%-10% for younger companies or those recovering from a slump with a 10%-20% advance for a conventional loan. Many lenders will consider five- to 10-year terms on assets or for the life of the vessel.

Prime was 3.25% about nine years ago. Rates started to creep up in 2015 and prime today is about 5.5%.

"A lot of people got spoiled by artificially low interest rates during the recession," said Michael Sammartino, executive vice president, **Thomas USAF Group** LLC, Atlanta, whose offerings include government guaranteed loans that range from $1 million to $20 million. "It's never been a boom since before the recession. It's been steady.

"Our tug and barge business is very strong. Ferry boats are very strong," Sammartino continued. In addition, "We recently refinanced some private loans that had high interest rates."

On the inland side, in particular, it's a good time to look at refinancing fleets, said Kyle Parks, senior managing director, head of direct originations for **Stonebriar Commercial Finance**, Plano, Texas.

"The boat and barge market is pretty tight right now," he said, with shipyard slots hard to find. "Plenty of deals are getting done. Long-term money remains cheap. Credit profiles are improving."

The tug sector "has been a very good area for us the last couple of years — both in refinancing as well as financing new assets," said Anthony Sasso, head of **TD Bank Equipment Finance**. "There's certainly ample liquidity out there."

He and others noted an increase in sale/leasebacks, many driven by the latest tax reform. "The bank will purchase marine assets from the operator and lease it back to the operator for a seven- or 10-year term depending on the type of asset," Sasso said. "The sale/lease can also be structured as a tax orientated lease in which the bank can take bonus depreciation which is 100% in year one which will lower the overall cost of the lease."

In general, "There's definitely a better atmosphere for marine finance than a few years ago," said Capt. Norm Antrainer, director of strategic asset planning, **Florida Marine Transporters** Inc., Mandeville, La. Last year FMT ordered three 120'×35' river towboats from **Metal Shark-Alabama**, Bayou La Batre, Ala. The four-deck, welded steel towboats, designed by **John W. Gilbert Associates** Inc., Hingham, Mass., will be powered by twin **Caterpillar** 3512C Tier 3 marine diesels.

They went to their normal lenders and got "pretty favorable rates," he said, so they decided to pull the trigger to keep up with Subchapter M.

"Right now, horsepower is key with this high river," Antrainer said in the spring as the Mississippi River was rising. FMT also wanted to lock in prices, especially with uncertainty over steel

Conrad Shipyard

The tug sector has been strong for financing and refinancing.

tariffs. "You need to move on the price you hear that day. We're being told the next two years are going to be a real bumpy road with steel."

OFFSHORE STILL SOFT

Offshore still holds a lot of uncertainty.

Parks said Stonebriar has been "pretty defensive" looking for opportunities there. "It's going to take a while for that idle tonnage to get back to work. It's still a very challenging market. We're open minded and getting a little more open minded with each quarter."

Are newbuilds out of the question? "At this point, totally," said Larry Rigdon, a veteran of the OSV industry.

What's more, "There have been very, very, very few refinancings of any kind," he said. One of the issues is that operators with the wherewithal are picking up distressed assets cheaply. "That's really destroyed value from the banks' perspective." The only financing is going to companies with non-cancellable contracts.

The offshore situation is almost a mirror of the '80s, though Rigdon doesn't think this downturn will last 13 years. There are signs of recovery, but bankers will have to get comfortable that oil prices will stay up and oil companies are committed to offshore.

Todd Hornbeck, CEO of **Hornbeck Offshore Services** Inc., Covington, La., recently told analysts that a recovery should begin to take shape around midyear." Last year "was probably the darkest year of the offshore industry. We do see it now changing," he said.

The Gulf of Mexico market "has reached the bottom, or at least this is the consensus. Therefore, it's time for recovery," said Basil Karatzas, of **Karatzas Marine Advisors & Co.**, New York. More sophisticated vessels, especially, will have better prospects.

He also sees bright prospects for Jones Act vessels. "The U.S. economy is moving along well. The fundamentals for marine transportation have stabilized," he said. "Financial institutions have more money to invest and spend in general, and in the past few years the maritime industry has not been part of their portfolio."

There's also interest in LNG in the U.S. and overseas. "This potentially could be a game changer," Karatzas said. "LNG as a fuel is cheaper, more abundant and has lower emissions." It's attractive as cargo, too.

"What we are working on in the U.S. and also overseas is having sufficient bunkering stations for all these vessels," he said. "Now banks also have to consider the footprint of projects they finance." An LNG powered tug checks more boxes for the bank related to regulatory issues.

Several operators are building vessels with Tier 4 diesel engines aimed at reducing emissions. Among them is **Foss Maritime**, Seattle, which has ordered four 100'×40' Tier 4-powered tractor tugs from **Nichols Brothers Boat Builders**, Freeland, Wash. Foss has an option for an additional six.

Financing is done through parent company **Saltchuk** whose services range from air cargo and logistics to domestic and international shipping.

"We find that the markets are strong," said Steve Giese, Saltchuk's chief financial officer. And with investment grade credit, "We have very good access to financing." WB

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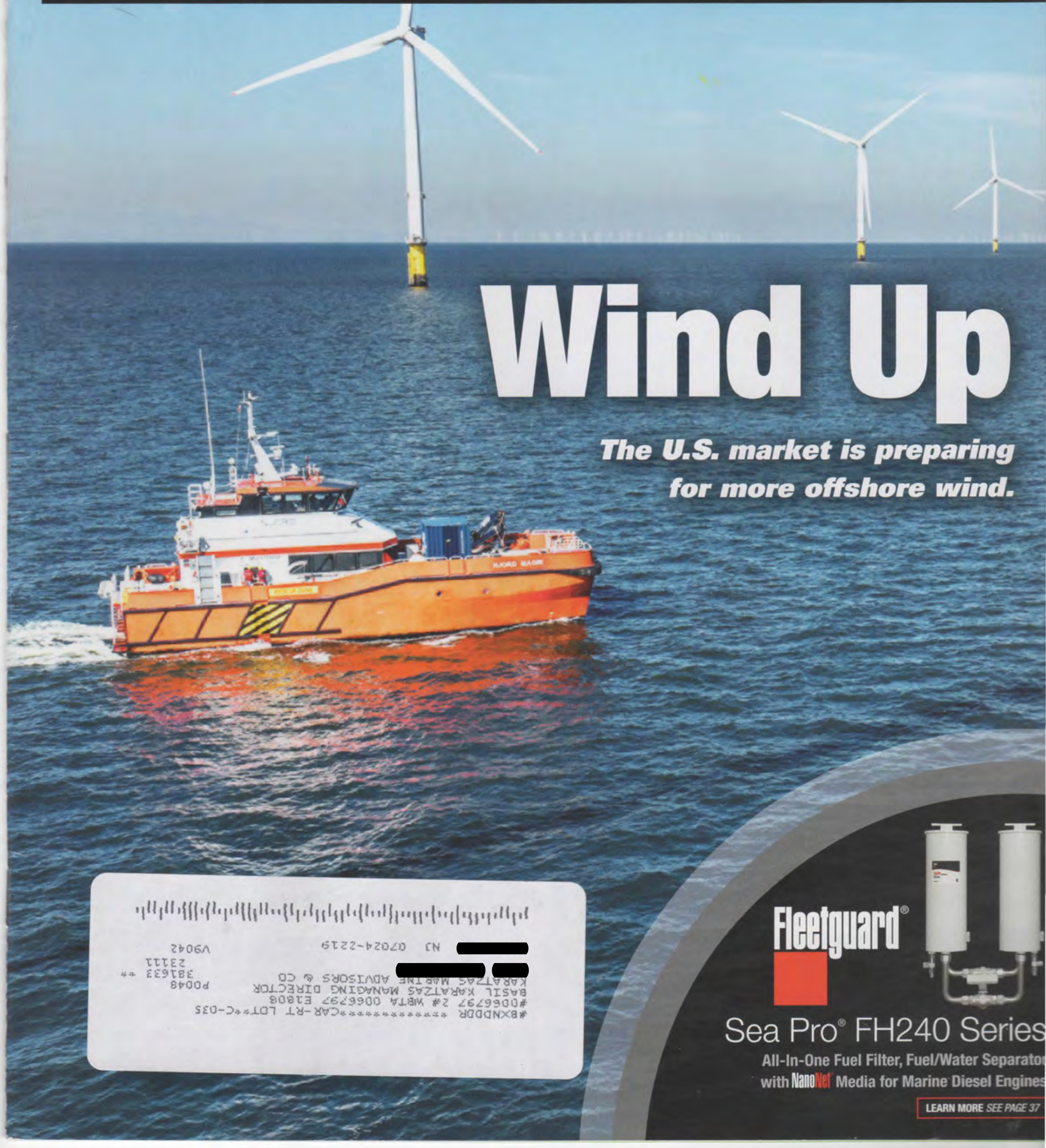

Wind Up

The U.S. market is preparing for more offshore wind.

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